

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04 TRSE-00

LAB-04 SIL-01 SAM-01 OMB-01 AGR-05 IO-10 TAR-01 L-03

OIC-02 FEA-01 ERDA-05 OES-03 DODE-00 PM-03 H-02

NSC-05 PA-01 PRS-01 SS-15 USIA-06 XMB-02 /115 W

----- 037007

R 131842Z JUN 75

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 9049

INFO ALL EC CAPITALS 763

LIMITED OFFICIAL USE EC BRUSSELS 5315

E.O. 11652: NA

TAGS: EIND, ETRD, EGEN, EEC

SUBJECT: EC RAW MATERIALS POLICY -- COMMODITY AGREEMENTS

REF: EC BRUSSELS 4585

1. SUMMARY: THE EC COMMISSION HAS SENT THE EC COUNCIL A COMMUNICATION ON COMMODITY AGREEMENTS TO ASSIST THE COUNCIL IN ITS DISCUSSION OF AN EC COMMODITY POLICY. THE PAPER CITES COPPER, ZINC, LEAD, COTTON AND WOOL AS THE COMMODITIES DESERVING FURTHER STUDY AS CANDIDATES FOR COMMODITY AGREEMENTS. THE COMMISSION CONTINUES TO ARGUE IN FAVOR OF JOINT PRODUCER-CONSUMER FINANCING AND MANAGEMENT OF COMMODITY AGREEMENTS. END SUMMARY.

2. ON JUNE 11 THE EC COMMISSION APPROVED AND SENT TO THE EC COUNCIL A COMMUNICATION ON COMMODITY AGREEMENTS ENTITLED "COMMODITY AGREEMENTS DESIGNED TO LIMIT EXCESSIVE PRICE FLUCTUATIONS," WHICH IS A FOLLOW-UP TO ITS BASIC COMMUNICATION ON "RAW MATERIALS AND THE DEVELOPING
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COUNTRIES" REPORTED IN REFTEL. A COMPANION PAPER ON

INTERNATIONAL ACTION TO STABILIZE EXPORT EARNINGS IS BEING REPORTED SEPTEL. (BOTH COMMUNICATIONS, IN FRENCH, ARE BEING AIR POUCHED TO EUR/RPE).

3. THE PAPER ON COMMODITY AGREEMENTS LOOKS AT THE 18 STOCKABLE COMMODITIES IN THE UNCTAD LIST AND REAFFIRMS THE FOLLOWING CONCLUSIONS:

- A) PROPOSALS FOR AGREEMENT ON WHEAT, CORN, RICE AND SUGAR ARE NOW UNDER CONSIDERATION;
- B) THERE ARE EXISTING AGREEMENTS ON TIN, COCOA, COFFEE AND UNOFFICIALLY ON TEA;
- C) THE PRICES OF JUTE, OTHER HARD FIBERS AND NATURAL RUBBER, ARE TOO MUCH AFFECTED BY COMPETING PRODUCERS TO PERMIT A VIABLE AGREEMENT;
- D) IRON ORE AND BAUXITE ARE LARGELY PRODUCED BY MINES OWNED BY DC PROCESSORS AND THE PRICES ON THE FREE MARKET ARE NOT REPRESENTATIVE.
- E) OF THE EIGHTEEN COMMODITIES, COPPER, ZINC, LEAD, COTTON AND WOOL MUST BE STUDIED IN MORE DEPTH TO DETERMINE IF IT WOULD BE POSSIBLE TO DEVELOP WORKABLE AGREEMENTS COVERING THEM.

4. LOOKING BEYOND THE UNCTAD LIST AT OTHER COMMODITIES THE PAPER MAKES THE FOLLOWING POINTS:

- A) BANANAS AND OIL SEEDS ARE EXTREMELY HETEROGENEOUS;
- B) WOOD AND WOOD PRODUCTS, AND HIDES AND SKINS ARE UNDER STRONG COMPETITION FROM SYNTHETICS;
- C) THERE ARE HIGH WORLD RESERVES OF MANGANESE AND PHOSPHATES AND SUPPLIES ARE RELATIVELY ASSURED;
- D) CHROME, TUNGSTEN AND PLATINUM HAVE SPECIFIC SUPPLY PROBLEMS AND THE SOLUTION IN THEIR CASE WOULD BE THE CREATION OF SECURITY RATHER THAN REGULATORY STOCKS.

5. THE PAPER CONTAINS A SECTION DESCRIBING VARIOUS TYPES OF COMMODITY AGREEMENTS AND DISCUSSES QUOTAS, REGULATORY STOCKS, LONG-TERM CONTACTS, FINANCIAL MECHANISMS, ETC. THIS PART OF THE PAPER IS PRIMARILY AIMED AT PROVIDING TECHNICAL BACKGROUND FOR EC COUNCIL DISCUSSIONS OF THE SUBJECT.

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6. ON THE BASIS OF ITS STUDY OF PROBLEMS CONNECTED WITH COMMODITY AGREEMENTS THE COMMISSION CONCLUDES AS FOLLOWS:

- A) THE FUNCTIONING OF EXISTING COMMODITY AGREEMENTS HAS OFTEN BEEN UNSATISFACTORY BECAUSE THEY WERE DESIGNED TO DEFEND PRODUCERS' INTEREST IN TIMES OF SURPLUS WITHOUT CONCERN FOR CONSUMER INTERESTS. THE COMMISSION BELIEVES COMMODITY AGREEMENT BASED ON A BETTER BALANCE OF INTERESTS WOULD OPERATE IN A MORE SATISFACTORY FASHION AND IT IS ON

THAT BASIS THAT THE EC MADE ITS RECENT PROPOSALS ON
TEMPERATE AGRICULTURAL PRODUCTS IN THE GATT;
B) THE EC SHOULD REAFFIRM ITS WILLINGNESS TO ENTER INTO
ADDITIONAL COMMODITY AGREEMENTS WHERE APPROPRIATE
THE TIME HAS COME TO DETERMINE WHICH STUDIES
WILL BE NECESSARY TO PERMIT THE EC TO TAKE A DEFINITE POSITION
ON THE COMMODITIES IN QUESTION. THE COMMISSION BELIEVES THAT
WHERE COMMODITY AGREEMENTS ARE APPROPRIATE, BOTH PRODUCER
AND CONSUMER INTERESTS SHOULD BE TAKEN INTO ACCOUNT, AND AS A
CONSEQUENCE BOTH SHOULD PARTICIPATE IN THE COSTS AND THE
MANAGEMENT OF THE AGREEMENT.
C) REGARDING THE MODALITIES OF POSSIBLE COMMODITY AGREEMENTS,
CONCENTRATION WOULD BE ON BUFFER STOCKS, JOINTLY MANAGED BY
PRODUCERS AND CONSUMERS, WITH OR WITHOUT MAXIMUM AND MINIMUM
PRICES, AND ON AGREEMENTS INVOLVING A "FINANCIAL MECHANISM",
A NEW CONCEPT OUTLINED IN THE PAPER.
D) IN-DEPTH TECHNICAL AND ECONOMIC STUDIES, TO BE UNDERTAKEN
IN COOPERATION WITH THE PRIVATE SECTOR, ARE NECESSARY BEFORE
DEFINITE CONCLUSIONS ON COMMODITY AGREEMENTS CAN BE REACHED.
E) ALTHOUGH THE FINANCING OF AN AGREEMENT WILL VARY ACCORDING
TO TYPE OF AGREEMENT, POSSIBILITIES ARE:
(1) PRODUCER AND CONSUMER PARTICIPATION IN JOINT FINANCING;
(2) FINANCING FROM INTERNATIONAL FINANCIAL ORGANIZATIONS,
NOTABLY THE IMF;
(3) FINANCING THROUGH LEVIES ON COMMODITY SALES. GREENWALD

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: RAW MATERIALS, POLICIES, ENERGY, NATURAL RESOURCES, MEETINGS, INTERGOVERNMENTAL COOPERATION
Control Number: n/a
Copy: SINGLE
Draft Date: 13 JUN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975ECBRU05315
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750207-0745
From: EC BRUSSELS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750649/aaaabske.tel
Line Count: 140
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 EC BRUSSELS 4585
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 15 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 APR 2003 by ElyME>; APPROVED <22 DEC 2003 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EC RAW MATERIALS POLICY -- COMMODITY AGREEMENTS
TAGS: EIND, ETRD, EGEN, EEC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006